Sole Source Commercial Item Pricing

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N206ST

FY 02 Sole Source Commercial Item Buys

Agency	No. of Actions	Total $	Largest Purchase
DOD	4944	$3.7 B	Aircraft - $355 M
NASA	250	$81 M	Maintenance - $15 M
Justice	754	$74 M	Communication Equipment - $1.6 M
VA	721	$71 M	Medical Studies - $3.5M

What is a commercial item?

- Any item, other than real property, that is of a type customarily used for nongovernmental purposes and that--
  - Has been sold, leased, or licensed to the general public; or
  - Has been offered for sale, lease, or license to the general public;

Of a type?

- An item that is sufficiently like, but not identical to, a commercial item that is or could be used to meet the government requirement.
- Not intended to be used to acquire sole-source, military unique items that are not closely related to items already in the marketplace.

Can we modify a commercial item to meet Government unique requirements and it still be commercial?

Yes – as long as the modifications are minor and the item retains its predominately nongovernmental characteristics.

If the Government paid for the development of the item, does that make it noncommercial?

No – who paid development costs is not a part of the commercial item determination.

What is a commercial service?

- Installation services, maintenance services, repair services, training services, and other services procured for support of a commercial item; or
- Services of a type offered & sold competitively in substantial quantities in the commercial marketplace based upon established catalog or market prices for specific tasks.

What is a nondevelopmental item?

An item that has been developed, at private expense, for use exclusively by government agencies (local, state, federal, & foreign).

Can an NDI also be considered a commercial item?

- Yes, if developed at private expense and sold in substantial quantities to multiple state and local governments.

Does an item have to be available off-the shelf to be commercial?

- No!!!
- Commercial items include items that:
  - Have been offered for sale to the general public; or
  - Have evolved from a commercial item that has been offered for sale to the general public.

How much time and effort do you need to spend determining a price to be reasonable?

- Depends upon the situation – dollar value and urgency.
- Don’t unreasonably delay an award for a repair part if the cost of keeping the equipment out of service is greater than the cost of the part.

What techniques can you use to determine if a price is fair & reasonable?

- Competition
- Commercial prices (market/catalog prices)
- Previously proposed/purchased prices
- Parametric or rough yardsticks
- Independent government estimate

Where can you get information about commercial pricing?

- GSA Advantage, *https://www.gsaadvantage.gov/cgi-bin/advwel*
- Federal Supply Schedule, http://www.gsaelibrary.gsa.gov/elib/eLibrary.jsp
- ITEC, http://www.itec-direct.navy.mil/
- EMALL, https://emall.prod.dodonline.net/scripts/emLogon.asp

Generic market research information

- Manufacturing Industry Information, http://www.competia.com/express/manufacturing.html
- NewsReal's Industry Watch, http://beta.newsreal.com/pages/beta/Headlines.nsp?
- TechnoGate, http://www.technogate.com
- Thomas Register, http://www.thomasregister.com

Industry specific market research sites

Aircraft Parts:

Internet Parts Locator System, http://www.ipls.com

Spec2000, http://www.spec2000.com

Textiles & clothing:

Garment Industry Development Corporation, http://www.gidc.org/

SourcingMall, http://www.sourcingmall.com

Electronics:

Electronic Industries Association, http://www.eia.org

Price Watch, http://www.pricewatch.com

Once you have collected pricing information what do you do with it?

Account for the differences!!!

- Vendor
- Technology
- Market
- Contract requirements
- Inflation/deflation

How do you adjust prior prices for inflation/deflation?

By using index numbers

What is an index number?

A measurement of the amount of change in price between 2 time periods.

Where do you get index information from?

- **Bureau of Labor Statistics- http://www.bls.gov/**
  - **Producer Price Index**
  - **Consumer Price Index**
  - **Monthly Labor Review**
  - **Compensation & Working Conditions**
- **Commercial Indexes**
- **Industry and Trade Publications**

Adjusting prior prices for inflation/deflation

- **Calculate the percentage of price change:**

$$\frac{\text{NI}}{\text{OI}} \times 100 = \text{percentage price change}$$

- **Estimate price using index numbers:**

$$\frac{NI}{OI} \times OP = NP$$

Work it out…

By what percentage did price change between 1999 and 2003?

1999	102
2000	105
2001	106
2002	110
2003	112

$$\frac{112}{102} = 1.098 \times 100 = 1$$

What is your estimate?

Estimate the price in 2003 based on the historical price in 1999 of $10,00

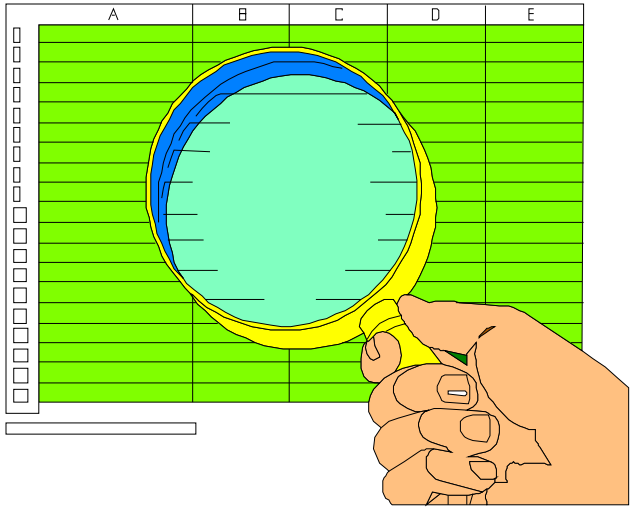
$$\frac{NI}{OI} \times OP = NP$$

112

102 = 1.098 x 100 = 109.8% x $10,00

Questions to ask when using index numbers

- Is it reasonable to use the price index series selected?
- Are adjustments calculated correctly?
- Is the time period for the adjustment reasonable?
- Is more than one adjustment made for the same inflation/deflation?
- How far into the future should you forecast?



What if there isn't any pricing information for you to use, can you get cost and pricing data?

No!!!

- FAR 15.403-1(b)(3) prohibits getting cost or pricing data for a commercial item.
- As a last resort, you can request information other than cost or pricing data from the contractor.

Where can you obtain information on cost & price?

Check government databases for current and prior solicitations & awards.

- Federal Business Opportunities - http://www.fedbizopps.gov/
- Federal Procurement Data System - http://www.fpdc.gov/fpdc/fpdc_home.htm
- DoD Procurement Statistics - http://web1.whs.osd.mil/peidhome/peidhome.htm
- Bidnet – http://www.bidnet.com/
- Bidline - http://www.bidline.com/

If you have to get additional information from the contractor, how much do you get?

Only the minimum needed to determine the price is fair and reasonable.

- Labor
- Material
- Indirect

What do you do with the information once you have it?

Look at the numbers to determine if you think they are reasonable. Your determination will be based upon input from:

- Technical
- DCMA
- DCAA

Additional information for sole source buys.

Determine how much business the Government does with the contractor.

- If we represent a large portion of the contractor's total business, we should have greater leverage in negotiating a reasonable price.
- If we represent a small portion of the contractor's total business, we will have minimal leverage.

How can we increase our buying power?

- Buy in greater quantities
- Purchase full lines of products instead of one or two items.
- Use flexible terms & conditions.
- Minimize government unique specifications
- Develop long-term partnerships.
- Use existing commercial distribution systems.

Additional sources for increasing our buying power

- Governmentwide Acquisition Contracts/Multi-Agency Contracts –

  http://www.arnet.gov/gwac/govwide.html

  http://www.prc.com/contracts/gwac.html

  http://www.statebuy.gov/gwacs.htm

  http://genesis.gsfc.nasa.gov/nasa/adpmass.htm

Additional sources for increasing our buying power

- DOJ Multi Agency Contracts http://www.usdoj.gov/jmd/pss/multiagency.html
- DOE National Purchasing Agreements http://www1.pr.doe.gov/leverage/
- NIH Multi Agency Contracts http://nitaac.nih.gov/
- Navy Regional Buying Consortiums - http://www.abm.rda.hq.navy.mil/rbc

Strategic Supplier Alliances

Allows the Government gets greater access to contractor operations and management information in return for waiving and/or modifying Government unique requirements.

What do you do when you still think the price is unreasonable?

- Determine if a non-commercial item can be used.
- Escalate negotiations.
- Identify alternate items/suppliers.
- Upgrade system to current, commercial technology

Best value for the Government

Consider the cost/impact to the Government of not getting the item.

- The price may be determined reasonable in light of the impact costs.
- Document the file accordingly.
- Take action to improve the Government’s buying position for any future procurements.

Fair and reasonable?

Sole-source commercial aircraft spare parts priced at 20% below catalog price and less than any other commercial customer paid.

DoD IG said NO because the prices were 280% (after adjusting for inflation) higher than what the Government paid before the items were determined to be commercial.

Fair and reasonable?

- Contractor projected they would sell 5500 units during the life of the item. The selling price has been $261 per unit, this includes:
  - $111 for labor, materials, indirects, profit (recurring costs)
  - $150 for research & development and start-up (nonrecurring costs)
- You are now buying units 5900 – 6000, is $261 per unit reasonable?

NO – the contractor should have recouped all of his nonrecurring costs and they should be removed from the selling price.

References

DoD Commercial Documents

http://www.acq.osd.mil/ar/initiati.htm#commercial

- Commercial Item Handbook
- Evaluating the Price of Commercial Items in a Sole-Source Environment
- Commercial Pricing Information Guide
- Commercial Item Acquisition: Considerations & Lessons Learned

References

- Commercial Advocates Forum – http://www.acq.osd.mil/ar/cadv.htm
- Contract Pricing Reference Guides - http://www.acq.osd.mil/dpap/contractpricing/index.htm
- DoD Strategic Supplier Alliance – http://www.acq.osd.mil/ar/csi/ssap/default_ssap_exec_overview.htm

References

- USN Innovative Commercial Contracting Strategies http://www.abm.rda.hq.navy.mil/abm2000_15a.pdf
- DoD Obtaining Information for Pricing Sole-Source Commercial Items – http://www.acq.osd.mil/dp/sspricing.pdf